

Message Text

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TRSE-00 DRC-01 IGA-02 AGR-20 /220 W

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R 040805Z MAR 74

FM AMEMBASSY KATHMANDU

TO SECSTATE WASHDC 7691

INFO AMEMBASSY NEW DELHI

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EO 11652: N/A

TAGS: ENRG, EAID, NP

SUBJECT: ENERGY CRISIS - EFFECT ON NEPAL

REF: STATE 020995 AND 005278

SUMMARY: ABSENCE OF NECESSARY STATISTICS MAKES IT DIFFICULT ASSESS REAL IMPACT OF OIL CRISIS ON NEPAL. THERE ARE NO DEFINITIVE FIGURES AVAILABLE AT MOMENT ON LEVEL OR TOTAL VALUE OF PETROLEUM IMPORTS IN PAST YEAR, NOR LIKELY LEVEL IN CURRENT YEAR. GOI HAS APPARENTLY INDICATED WILLINGNESS TO CONTINUE PETROLEUM SUPPLIES TO NEPAL AT 1972/73 LEVELS. FOR PLANNING PURPOSES, GON APPEARS TO BE ASSUMING LEVEL OF IMPORTS IN 1974 APPROXIMATING 81,500 METRIC TONS, ABOUT 6 PERCENT BELOW LAST YEAR'S LEVEL, AND FROM 10 PERCENT TO 20 PERCENT BELOW GON'S ESTIMATED REQUIREMENTS. AS GOI FIGURES DIFFER FROM GON FIGURES ON LEVEL OF IMPORTS, AND AS NEGOTIATIONS ARE STILL IN PROGRESS, THERE IS POSSIBILITY THAT ACTUAL LEVEL OF SUPPLIES MAY BE LOWER. (SUPPLIES COULD OF COURSE BE AUGMENTED BY PURCHASES FROM SOURCES OTHER THAN INDIA, AND GON HAS APPARENTLY BEGUN TO EXPLORE THESE

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POSSIBILITIES.) PRICES CURRENTLY PREVAILING WILL UNDOUBTEDLY BE CHANGED FOLLOWING MEETING AT END OF MARCH WITH GOI TO DISCUSS

PETROLEUM PRICES. BASED ON PRICE INCREASES ALREADY IN EFFECT NET COST (EXCLUDING TAXES AND RETAIL MARKUP) OF NEPAL'S PETROLEUM IMPORTS WILL INCREASE BY ABOUT NR 22 MILLION (\$2.1 MILLION), OR ABOUT 38 PERCENT IN CURRENT YEAR. SHOULD GOI DOUBLE PRICES FOLLOWING UPCOMING DISCUSSIONS, GON IMPORT BILL FOR PETROLEUM COULD TOTAL NR 140 MILLION (\$13.3 MILLION) IN 1974, AN INCREASE OF ABOUT NR 80 MILLION OVER ESTIMATED 1973 TOTAL, AND EQUAL TO ABOUT THREE-FOURTHS OF NEPAL'S TOTAL HOLDINGS OF IC. GIVEN PROJECTED LEVEL OF IMPORTS FROM THIRD COUNTRIES, AND PRICE INCREASES IN NEPAL'S IMPORTS OTHER THAN PETROLEUM, IT IS POSSIBLE THAT NEPAL WILL INCUR FIRST OVERALL BALANCE OF PAYMENTS DEFICIT IN RECENT YEARS. WE ESTIMATE THAT COST OF U.S. TECHNICAL ASSISTANCE PROJECTS WILL INCREASE BY ABOUT 2 PERCENT, AND COST OF CAPITAL PROJECTS BY ABOUT 25 PERCENT, AS RESULT OF PRICE INCREASES, REFLECTING PETROLEUM PRICES, ALREADY IN EFFECT. COST INCREASES OF EQUAL MAGNITUDE COULD RESULT FROM PRICE INCREASES THAT MAY BE IMPLEMENTED DURING COURSE OF YEAR. END SUMMARY.

GENERAL -- GON VIEWS

1. WITH 90 PERCENT OF ITS INHABITANTS ENGAGED IN AGRICULTURE, NEPAL IS NOT EXPORTER OF MANUFACTURED GOODS, NOR DOES IT UTILIZE PETROLEUM AS INPUT IN MANUFACTURING FOR DOMESTIC CONSUMPTION. WHILE USE OF FERTILIZERS AND OIL POWERED IRRIGATION IS LIMITED, AGRICULTURAL PRODUCTION FROM AREAS WHERE IMPROVED PRACTICES ARE IN EFFECT HAS SERVED TO OFFSET TO SOME DEGREE DECLINING YIELDS PREVAILING IN NEPAL'S AGRICULTURAL SECTOR. IN ABSENCE RELIABLE STATISTICS, WE ARE NOT, HOWEVER, ABLE TO QUANTIFY LIMITED EXTENT TO WHICH OVERALL AGRICULTURAL PRODUCTION WILL BE AFFECTED. EFFECT OF ENERGY CRISIS IN NEPAL IS PRIMARILY ON COST OF USE AND AVAILABILITY OF PETROLEUM AS DIRECT ENERGY AND HEATING SOURCE, AND IN REPERCUSSIONS WORLDWIDE PETROLEUM SITUATION HAS ON COST AND AVAILABILITY OF NEPAL'S ESSENTIAL IMPORTS. IN THESE AREAS, GON ACUTELY AWARE OF IMPLICATIONS OF ENERGY CRISIS. WHILE NEPAL GENERALLY AWARE THAT WORLD SITUATION HAS RESULTED IN TIGHTNESS OF SUPPLIES TO ALL COUNTRIES, GON'S PERCEPTION OF PROBLEM IS FOCUSSED ON FACT OF NEPAL'S DEPENDENCE ON INDIA FOR ALL PETROLEUM SUPPLIES. THERE IS TENDENCY IN SOME QUARTERS OF GON TO SUSPECT THAT GOI IS NOT DOING ITS BEST TO LIMITED OFFICIAL USE
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MEET NEPAL'S REQUIREMENTS, ALTHOUGH WE BELIEVE THESE SUSPICIONS ARE BEING ATTENUATED AS GON BECOMES MORE AWARE OF WORLDWIDE DIFFICULTIES ATTENDING ENERGY SITUATION, AND PARTICULARLY OF IMPACT ON INDIA ITSELF.

2. GON ATTEMPTS TO DEAL WITH PETROLEUM CRISIS HAVE BEEN CONCENTRATED ON TWO FRONTS: NEGOTIATING WITH GOI TO OBTAIN HIGHEST POSSIBLE LEVEL OF SUPPLIES; AND ADOPTION DOMESTIC CONSERVATION MEASURES. GAS RATIONING HAS BEEN IN EFFECT SINCE DECEMBER, WITH PRIVATE VEHICLES AND MOTORCYCLES RESTRICTED

TO ALLOCATIONS OF 28 AND 4 LITERS OF GASOLINE PER WEEK RESPECTIVELY. GAS RATIONING WAS FOLLOWED BY BAN ON SATURDAY DRIVING WHICH BEGAN FEBRUARY 16. BAN IS BEING IMPLEMENTED IN STAGES AND WILL AFFECT TAXIS AND GOVERNMENT AND PRIVATE VEHICLES. GON ESTIMATES THAT SAVINGS RESULTING FROM SATURDAY BAN ON DRIVING WILL EXCEED 900,000 LITERS OF GASOLINE ANNUALLY, VALUED AT APPROXIMATELY \$338,000.

SUPPLIES

3. PETROLEUM SUPPLIES TO NEPAL ARE OBSTENSIBLY COVERED BY EXPORT QUOTAS SET BY GOI IN 1971. GOI IN MOST CASES HAS NOT PAID MUCH ATTENTION TO QUOTA LEVELS AND HAS PROVIDED POL TO NEPAL IN QUALITIES IN EXCESS OF FORMAL LEVELS. DURING INITIAL DELIBERATIONS ON IMPACT OF ENERGY CRISIS ON NEPAL, GON WAS APPREHENSIVE THAT INDIA WOULD ADOPT POLICY OF RIGOROUS ADHERENCE TO FORMAL QUOTA LEVELS, WHICH WOULD MEAN SHORTFALL OF UP TO 50 PERCENT IN NEPAL'S CURRENT REQUIREMENTS. INDIA'S AMBASSADOR TO NEPAL HAS NOW, HOWEVER, INDICATED GOI'S WILLINGNESS TO SUPPLY POL AT 1972 OR 1973 LEVELS, WHICHEVER IS HIGHER. WE DO NOT HAVE PRECISE FIX ON QUANTITIES THAT WOULD BE PROVIDED UNDER THESE GUIDELINES, AS THERE IS CURRENTLY SOME DISAGREEMENT OVER ACTUAL LEVEL OF SUPPLIES IN 1972/73, AND FIGURES ARE CONSTANTLY BEING REVISED.

4. GON FIGURES SHOW POL IMPORTS TOTALING 86,500 METRIC TONS IN 1972, WHEREAS GOI FIGURES INDICATE LEVELS FROM 10 TO 20,000 METRIC TONS LESS. DESPITE THESE DIFFERENCES, GON FOR PLANNING PURPOSES NOW APPEARS TO BE ASSUMING FOLLOWING APPROXIMATE LEVELS OF SUPPLIES DURING 1974:

GASOLINE 12,000 METRIC TONS

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HIGH SPEED DIESEL 16,000 METRIC TONS

KEROSENE 35,000 METRIC TONS

AVIATION FUEL 8,500 METRIC TONS

LIGHT DIESEL OIL 10,000 METRIC TONS

TOTAL 81,500 METRIC TONS

TOTAL OF 81,500 METRIC TONS WOULD BE APPROXIMATELY 5,000 METRIC TONS LOWER THAN LEVEL OF IMPORTS IN 1973, AS INDICATED BY GON FIGURES, AND FROM 10 PERCENT TO 20 PERCENT BELOW GON'S ESTIMATED REQUIREMENTS FOR 1974, DEPENDING ON WHICH SET OF GON FIGURES ONE CHOOSES TO USE.

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PRICES

5. REPRESENTATIVES OF GON AND GOI SCHEDULED TO MEET END OF MARCH TO DISCUSS ISSUE OF PETROLEUM SUPPLIES, INCLUDING PRICES, WHICH GOI HAS INDICATED WILL HAVE TO BE INCREASED TO REFLECT HIGHER PRICES GOI NOW PAYING FOR CRUDE IMPORTS. INDIAN AMBASSADOR TO NEPAL HAS SAID, HOWEVER, THAT GON WILL BE ALLOWED CONTINUE PAY FOR OIL IMPORTS WITH INDIAN CURRENCY, EVEN THOUGH GOI MUST PURCHASE CRUDE WITH FOREIGN EXCHANGE. ON BASIS LEVEL OF PETROLEUM IMPORTS OF 81,500 METRIC TONS IN 1974, AND USING PRICES PREVAILING IN JANUARY 1974, COST OF NEPAL'S PETROLEUM IMPORTS, EXCLUDING GON SURCHARGE AND GOI EXPORT EXCISE TAX, WOULD APPROXIMATE NR 79.5 MILLION, OR ABOUT \$7.5 MILLION, AS COMPARED TO ROUGH ESTIMATE OF NR 57.7 MILLION, OR \$5.5 MILLION IN 1973. THIS ESTIMATE DOES NOT REFLECT INCREASED PRICES WHICH WILL RESULT FROM MARCH MEETING BETWEEN GOI AND GON REPS. IT DOES HOWEVER REFLECT INCREASED INDIAN PRICES OF 50 PERCENT FOR GASOLINE, 40 PERCENT FOR AVIATION FUEL, AND 33 PERCENT FOR KEROSENE WHICH HAVE BEEN IN FORCE DURING LAST SEVERAL MONTHS. AT THIS POINT, WE HAVE NO INFORMATION ON MAGNITUDE OF PRICE INCREASES LIKELY

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TO FOLLOW MARCH MEETING. WITH INDIA'S CIF PRICE FOR CRUDE IMPORTS INCREASING FROM AROUND \$3.50 PER BARREL IN 1973 TO POSSIBLY \$9 IN 1974, RUMORS OF DOUBLING OF PRICES TO NEPAL SHOULD PERHAPS NOT BE DISMISSED OUT OF HAND.

BALANCE OF PAYMENTS - INDIA

6. DETAILED PROJECTION OF EFFECT OF OIL CRISIS ON NEPAL'S BALANCE OF PAYMENTS NOT POSSIBLE, AS BALANCE OF PAYMENTS STATISTICS ARE AVAILABLE ONLY FOR TRANSACTIONS WITH THIRD COUNTRIES (OTHER THAN INDIA) FOR WHICH EXCHANGE CONTROLS ARE IN FORCE. GIVEN LARGELY OPEN BORDER, TRADE STATISTICS WITH INDIA, WHICH IMPORTS FOODGRAINS FROM NEPAL, AND WHICH ACCOUNTS FOR SOME 85 PERCENT OF NEPAL'S TRADE, ARE NEITHER CURRENT NOR COMPLETE. WHILE EFFORTS ARE NOW BEING MADE TO COMPILE MORE THOROUGH BALANCE OF PAYMENTS FIGURES, STATISTICS ON TOTAL FOREIGN TRADE, I.E., INCLUDING INDIA, ARE AVAILABLE ONLY THROUGH FISCAL YEAR 1968/69. MEASURE OF BALANCE OF PAYMENTS CAN, HOWEVER, BE GAUGED BY TRENDS IN FOREIGN EXCHANGE RESERVES. AS RESULT OF SURPLUSES IN TRANSACTIONS WITH THIRD COUNTRIES, NEPAL'S OVERALL BALANCE OF PAYMENTS IN RECENT YEARS HAS BEEN FAVORABLE. THROUGH FY 1970/71 NEPAL'S BALANCE OF PAYMENTS WITH INDIA WAS ALSO IN SURPLUS. SINCE THEN, HOWEVER, NEPAL HAS BEEN RUNNING DEFICIT IN TRANSACTIONS WITH INDIA, WITH A SHARP DECLINE IN NEPAL'S HOLDINGS OF IC OCCURRING IN FY 1972/73, AS DOMESTIC FOOD SHORTAGES LED TO CURTAILMENT OF AGRICULTURAL EXPORTS TO INDIA.

7. GIVEN NEPAL'S GROWING NEED FOR IMPORTS AS DEVELOPMENT PROGRESSES AND FACT THAT SOME 85 PERCENT OF NEPAL'S TRADE IS WITH INDIA, BALANCE OF PAYMENTS EQUILIBRIUM WITH INDIA IS MATTER OF CRUCIAL IMPORTANCE TO GON. NEPAL'S TOTAL HOLDINGS OF IC AT END OF JULY OVER LAST THREE YEARS HAVE DECLINED BY NR 3 MILLION (\$286,000), NR 22 MILLION (\$2.1 MILLION) AND NR 48 MILLION (\$4.6 MILLION) RESPECTIVELY, WITH RESPECT TO PREVIOUS YEAR. AT PRESENT, HOLDINGS OF IC ARE SUFFICIENT TO COVER NO MORE THAN TWO TO THREE MONTHS OF IMPORTS FROM INDIA. AGAINST THIS BACKGROUND, INCREASE IN OIL PRICES PRESENT REAL PROBLEMS. BASED ON PRICE INCREASES ALREADY IN EFFECT, NEPAL'S OIL BILL WOULD APPROXIMATE NR 80 MILLION (\$7.6 MILLION) IN 1974, AN INCREASE OF NR 22 MILLION (\$2.1 MILLION) OVER 1973. ASSUMING FOR ESTIMATING PURPOSES ONLY THAT PRICES OF PETROLEUM IMPORTS DOUBLE, LIMITED OFFICIAL USE
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RELATIVE TO PRICES PREVAILING OVER LAST YEAR, FOLLOWING PRICE REVIEW MEETING SCHEDULED WITH GOI IN MARCH, NEPAL'S IMPORT BILL FOR PETROLEUM COULD TOTAL NR 140 MILLION (\$13.3 MILLION) IN 1974, AN INCREASE OF ABOUT NR 80 MILLION (\$7.6 MILLION) OVER ESTIMATED 1973 TOTAL, AND EQUAL TO NEARLY THREE-FOURTHS OF NEPAL'S TOTAL HOLDINGS OF IC IN JULY 1973. IN ADDITION TO

LARGE INCREASE IN OIL BILL, PRICES OF OTHER IMPORTS WILL ALSO INCREASE, REFLECTING ASSOCIATED EFFECTS OF OIL CRISIS AND GENERAL INFLATION. SHOULD NEPAL'S EXPORTS TO INDIA NOT REBOUND FROM UNUSUALLY LOW LEVEL OF PREVIOUS YEAR, NEPAL'S DEFICIT WITH INDIA COULD BE SIGNIFICANTLY LARGER THAN THAT INCURRED IN PREVIOUS YEAR. THERE IS, HOWEVER, OTHER FACTOR THAT WOULD TEND TO MITIGATE DEFICIT. WHILE FIGURES ARE NOT AVAILABLE, WE HAVE IMPRESSION THAT OVERALL LEVEL OF IMPORTS FROM INDIA IS RUNNING AT LOWER LEVEL THIS YEAR, REFLECTING INDIA'S INABILITY, IN VIEW OF ITS OWN SHORTAGES AS IN CASES OF CEMENT AND PETROLEUM, TO SUPPLY NEPAL'S DEMANDS.

BALANCE OF PAYMENTS - THIRD COUNTRIES - OVERALL

8. WHILE MAJOR FINANCIAL MEASURE OF OIL CRISIS WILL BE REFLECTED IN BALANCE OF PAYMENTS WITH INDIA, NEPAL'S BALANCE WITH THIRD COUNTRIES WILL BE SUBJECTED TO SEVERAL NEW STRAINS. GIVEN RECENT DEFICIT TRANSACTIONS WITH INDIA, SURPLUS IN OVERALL BALANCE OF PAYMENTS HAS DEPENDED ON THIRD COUNTRY TRANSACTIONS, PRIMARILY ON INVISIBLE EXPORTS, AS THIRD COUNTRY TRADE BALANCE HAS BEEN IN DEFICIT OVER LAST THREE YEARS. USING NEPAL'S CONVERTIBLE FOREIGN EXCHANGE BUDGET AS MEASURE, TRANSACTIONS WITH THIRD COUNTRIES HAVE REGISTERED SURPLUSES OF NR 92.7 MILLION (\$8.8 MILLION) IN 1970/71; NR 81.2 MILLION (\$7.7 MILLION) IN 1971/72; AND NR 104.8 MILLION (\$9.9 MILLION) IN 1972/73. ESTIMATES FOR 1973/74, HOWEVER, REFLECTING QUADRUPLING OF SCHEDULED IMPORTS OF DEVELOPMENT GOODS AND 20 PERCENT INCREASE IN IMPORTS OF CONSUMER GOODS, PROJECT DEFICIT OF NR 76 MILLION (\$7.2 MILLION) IN CONVERTIBLE FOREIGN EXCHANGE BUDGET. WE WOULD EXPECT THAT DEFICIT WILL BE SIGNIFICANTLY LESS AS PAST EXPERIENCE SHOWS THAT DELAYS AND INEFFICIENCIES IN IMPLEMENTING DEVELOPMENT PROJECTS, AND ISSUING NECESSARY IMPORT LICENSES, RESULT IN SIZEABLE SHORTFALL IN SCHEDULED IMPORTS. EVEN ASSUMING LARGE SHORTFALL THE INCREASE IN OIL IMPORT BILL OF PERHAPS UP TO NR 80 MILLION, SHOULD INDIA DOUBLE OIL PRICES TO NEPAL, PLUS LIMITED OFFICIAL USE
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PRICE INCREASES FOR OTHER IMPORTS FROM INDIA, WHICH WILL SERVE TO EXACERBATE RECENT ANNUAL DEFICITS IN TRANSACTIONS WITH INDIA, MAKE IT LIKELY THAT NEPAL WILL INCUR FIRST DEFICIT IN OVERALL BALANCE OF PAYMENTS IN RECENT YEARS. GON HAS INDICATED ITS INTENTION THIS YEAR TO STICK MORE CLOSELY TO ITS SCHEDULE FOR FOREIGN EXCHANGE EXPENDITURES, BOTH TO EXPEDITE DEVELOPMENT AND TO RELIEVE PRESSURE ON IC HOLDINGS. SHORTFALL IN IMPORTS SHOULD THEREFORE BE LESS THAN THAT WHICH OCCURRED IN 1972/73 WHEN SWING IN CONVERTIBLE FOREIGN EXCHANGE BUDGET TOTALED NR 144 MILLION (\$13.7 MILLION) FROM PROJECTED DEFICIT OF NR 39.5 MILLION TO SURPLUS OF NR 105 MILLION. IF WE ASSUME THAT GON AGAIN ENCOUNTERS SERIOUS DIFFICULTIES IN IMPLEMENTING ITS PLANS -- AND WE HAVE IMPRESSION THAT THIS IS OCCURRING -- AND THAT THERE IS SIZEABLE SHORTFALL IN SCHEDULED IMPORTS, SWING OF

SAY NR 100 MILLION (\$9.5 MILLION) FROM DEFICIT OF NR 76.5 MILLION TO SURPLUS OF NR 33 MILLION IN CONVERTIBLE FOREIGN EXCHANGE TRANSACTIONS WOULD BE POSSIBLE. GIVEN INCREASED PRICE OF IMPORTS FROM INDIA, THAT COULD TOTAL NR 80 MILLION FOR PETROLEUM ALONE, THIS WOULD NOT BE SUFFICIENT -- UNLESS OVERALL LEVEL OF IMPORTS FROM INDIA WAS MARKEDLY REDUCED -- TO MOVE OVERALL BALANCE OF PAYMENTS INTO SURPLUS. IF GON MANAGES TO STICK MORE CLOSELY TO PROJECTED IMPORT SCHEDULE, DEFICIT WOULD OF COURSE BE LARGER.

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9. INDIAN CURRENCY TRANSFERRED TO NEPAL UNDER PROVISIONS OF RECENT INDO-AMERICAN RUPEE AGREEMENT IN AMOUNTS OF IC 65 MILLION ANNUALLY OVER NEXT THREE YEARS WILL ALLEVIATE TO DEGREE SHORTAGES OF INDIAN CURRENCY, AND, ASSUMING LAG BETWEEN TIME RUPEES ACTUALLY TRANSFERRED TO NEPAL AND EXPENDITURES ARE ACTUALLY INCURRED FOR AID PROJECTS, WILL SERVE TO REDUCE MAGNITUDE OF DEFICIT IN IC TRANSACTIONS. THERE IS ALSO THE POSSIBILITY THAT GON WILL ELECT TO UTILIZE TO GREATER EXTENT ITS HOLDINGS OF CONVERTIBLE FOREIGN EXCHANGE TO RELIEVE PRESSURE ON IC. AS HOLDINGS OF CONVERTIBLE FOREIGN EXCHANGE PRESENTLY APPROXIMATE \$112 MILLION, SUFFICIENT TO COVER FIVE YEARS OF IMPORTS FROM THIRD COUNTRIES AT CURRENT LEVELS, SUCH A POLICY MIGHT MAKE SENSE. POLICY COULD TAKE FORM

OF PURCHASE OF SOME ESSENTIAL COMMODITIES FROM THIRD COUNTRIES AND COULD INCLUDE HARD CURRENCY PAYMENTS FOR SOME PETROLEUM IMPORTS, EITHER FROM INDIA OR FROM THIRD COUNTRIES. IN ANTICIPATION OF LIKELIHOOD THAT INDIA WILL NOT BE ABLE PROVIDE ALL OF NEPAL'S REQUIREMENTS, GON REPORTEDLY WILL SOON SEND DELEGATION TO THIRD COUNTRIES TO EXPLORE POSSIBILITY OF PETROLEUM PURCHASES ON ORDER OF UP TO 25,000 METRIC TONS DURING CURRENT YEAR. WHILE GON INTENDS ATTEMPT TO PURCHASE ONLY PRODUCTS THIS YEAR, GON HOPES LIMITED OFFICIAL USE

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THAT PURCHASES FROM THIRD COUNTRIES IN SUBSEQUENT YEARS WILL BE AT LEAST PARTLY IN FORM OF CRUDE. IN THIS CONNECTION, INDIA'S AMBASSADOR TO NEPAL HAS INDICATED THAT INDIA WOULD BE WILLING TO PROCESS IN ITS REFINERIES ANY CRUDE THAT GON COULD PURCHASE ON ITS OWN.

10. AS MENTIONED EARLIER, INVISIBLE ACCOUNT (REMITTANCES AND PENSIONS, TOURISM, INTEREST INCOME) HAS BEEN PRINCIPAL SOURCE OF CONVERTIBLE CURRENCY EARNINGS IN PAST, WITH MERCHANDISE EXPORTS (LARGELY JUTE) FOLLOWING CLOSELY. WE WOULD EXPECT INFLOWS CONVERTIBLE FOREIGN EXCHANGE TO CONTINUE MUCH AS IN PAST, WITH POSSIBLE EXCEPTION OF TOURISM, WHICH ACCOUNTED FOR ABOUT 13 PERCENT OF CONVERTIBLE FOREIGN EXCHANGE RECEIPTS IN FY 1972/73. PRIOR TO ENERGY CRISIS, TOURIST SECTOR WAS EXPECTED TO PROVIDE INCREASINGLY LARGER INFLOWS OF FOREIGN EXCHANGE, WITH SOME PROJECTIONS INDICATING FOREIGN EXCHANGE RECEIPTS IN YEAR ZLDING JULY 1974 OF \$6 MILLION, EQUAL TO ABOUT 17 PERCENT OF PROJECTED INFLOWS. (THIS COMPARES TO RECEIPTS OF \$4.6 MILLION, \$2.2 MILLION, AND \$1.8 MILLION IN THREE PREVIOUS YEARS.) WE CANNOT JUDGE TO WHAT EXTENT '74 PROJECTION SHOULD BE ALTERED AS NO TREND IS YET EVIDENT. TOURIST ENTRIES IN 1973 SHOWED AN INCREASE OF 28 PERCENT OVER 1972. MOREOVER, INCREASING NUMBER OF TOURISTS VISIT NEPAL TO TREK OR EXPLORE THE COUNTRY, AS CONTRASTED TO TOURISTS WHO STAY ONE OR TWO DAYS ON ROUND-THE-WORLD, OR ASIAN TOURS, LATTER CATEGORY IS ONE WE WOULD EXPECT TO BE MOST AFFECTED BY ENERGY CRISIS. IN ADDITION, NEPAL CAN AFFORD SOME DROP OFF IN TOURISTS INTERESTED IN VISITING NEPAL, AS MANY ARE TURNED AWAY ANNUALLY DUE TO LACK OF SUITABLE HOTEL ACCOMMODATIONS. STATISTICS ON TOURIST ENTRIES FOR MARCH AND APRIL, POPULAR MONTHS FOR TOURISM IN NEPAL, SHOULD GIVE SOME INDICATION OF EXTENT TO WHICH NEPAL'S INCIPIENT TOURIST INDUSTRY IS AFFECTED BY OIL SITUATION.

EFFECT ON AID PROJECTS

11. EFFECT OF OIL CRISIS ON DEVELOPMENT PROJECTS DIFFICULT TO ESTIMATE BECAUSE OF UNCERTAINTY FUTURE LEVEL OF PRICES AND SUPPLIES. PROJECTS WITH SIGNIFICANT POL REQUIREMENTS SUCH AS WESTERN HILLS, SURKHET ROADS, AND AIRPORT DEVELOPMENT, WILL OF COURSE COST MORE. ALL PROJECTS USING IMPORTED MATERIALS WILL COST MORE DUE TO HIGHER TRANSPORTATION COSTS AND INCREASED MANUFACTURING

COST OF INPUTS. LAGS IN DELIVERIES OF PETROLEUM SUPPLIES WILL
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DELAY PROJECTS, EXTENDING COMPLETION TIMES, AND PUSHING TOTAL COSTS UP. GENERAL INFLATION, PARTLY ATTRIBUTABLE TO OIL PRICES, WILL CAUSE EXPENSES TO GO UP, INCLUDING LABOR. IN VIEW LARGE NUMBER OF UNKNOWN AND ABSENCE ESSENTIAL DATA WE HAVE NOT CARRIED OUT DETAILED STUDY AND CANNOT THEREFORE BE SPECIFIC ABOUT COST EFFECT OF PETROLEUM ON PROJECTS. BASED HOWEVER ON PRICE INCREASES WHICH ARE ALREADY BEING REFLECTED, USAID ESTIMATES AS ROUGH MEASURE THAT POL PRICES HAVE INCREASED ABOUT 200 PERCENT AT PROJECT SITES (NOTE THAT THIS IS NOT COST TO GON OF IMPORT PRICE, BUT DELIVERED PRICE AT SITE WHICH REFLECTS TRANSPORTATION COSTS, INTERNAL TAXES AND PROFITS RELATIVE TO PRICES PREVAILING ONE YEAR AGO. IN ADDITION TO NEPAL OIL CORPORATION TO INCREMENT IN PETROLEUM PRICES, WE HAVE ADDED 10 PERCENT TO PROJECT COSTS TO COVER INCREASES IN TRANSPORTATION COSTS, MANUFACTURING COSTS, AND GENERAL INFLATION. FOR TECHNICAL ASSISTANCE PROJECTS THIS WORKS OUT TO AN AVERAGE OF ABOUT ONE TO TWO PERCENT INCREASE PER PROJECT (ASSUMING U.S. TECHNICIANS SALARIES DO NOT GO UP). FOR CAPITAL PROJECTS, COST INCREASES WILL OF COURSE BE GREATER. WE ESTIMATE COST OF TWO ROAD PROJECTS HAVE INCREASED BY 25 PERCENT. (REVISED COSTS WERE REFLECTED IN KATHMANDU 0649). AS OVERALL AVERAGE, WE ESTIMATE TECHNICAL ASSISTANCE PROJECTS FOR USAID, WHICH RUN ABOUT \$4.5 MILLION PER YEAR WILL INCREASE ABOUT 2 PERCENT. CAPITAL PROJECTS, REFLECTING CURRENT PRICE INCREASES OF ABOUT 25 PERCENT, WILL BE RUNNING IN RANGE OF \$7 MILLION PER YEAR OVER NEXT THREE YEARS. IT SHOULD BE NOTED, HOWEVER, THAT ADDITIONAL COST INCREASES OF AT LEAST EQUAL MAGNITUDE MAY RESULT FROM PRICE INCREASES WHICH WILL BE IMPLEMENTED DURING COURSE OF PRESENT YEAR.

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Message Attributes

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Capture Date: 01 JAN 1994
Channel Indicators: n/a
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Concepts: TERRITORIAL REVERSION, PUBLIC DEMONSTRATIONS, CONSERVATION, SUPPLIES, PRESS CONFERENCES, PRICES, FOREIGN ASSISTANCE, BALANCE OF PAYMENTS, RUPEE
Control Number: n/a
Copy: SINGLE
Draft Date: 04 MAR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974KATHMA00874
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
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From: KATHMANDU
Handling Restrictions: n/a
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Page Count: 9
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: STATE 020995 AND 005278
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 14 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14-Aug-2002 by shawdg>; APPROVED <15-Aug-2002 by MorefiRH>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ENERGY CRISIS - EFFECT ON NEPAL
TAGS: PFOR, TO, GH
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005